1950

Monthly Letter on
Economic Conditions
Government Finance

New York, June, 1950

General Business Conditions

THE business upswing has carried farther during May. Industrial production in the aggregate is close to the 1948 peak, in some major lines it is at an all-time high, and manufacturers of durable goods particularly, who are hard put to fill orders, in many cases are still expanding operations. The country has never before produced as many houses and automobiles, or as much steel, as it is now turning out, but so far there is no evidence that demand is being satiated. On the contrary, automobile deliveries are delayed, dealers' stocks are negligible, and used car prices have risen further. Markets for new houses and for household equipment are strong. Not only in steel, but in non-ferrous metals also, buyers are having to scramble to cover their needs.

The most significant new development is in commodity prices. Since mid-April copper has advanced 2c, zinc 2½c, lead 1½c, aluminum ½c, nickel 8c, and tin 1¾c. Steel scrap has risen by about $6 a ton. A number of chemicals have been marked up and rubber has advanced 10c, wool 10c, and hides 1c. These are industrial materials of wide use. Specific reasons for the advances vary, but there is one general reason, namely, the pressure of demand. The rise in sales of manufactured products is felt all the way back to the basic commodity markets, and demand is augmented along the line by the enlargement of working stocks and commitments which is necessary to support the increased production.

Building materials prices are rising. Currently they average 5 per cent above last fall's low point, according to the Bureau of Labor Statistics index. Prices of many farm products and foods also have advanced. In the past six weeks the average price of 11 foods and farm products quoted daily by the Bureau of Labor Statistics has risen 8 per cent. Seasonal influences, a relatively poor crop outlook, and market "squeezes" due to the impounding of supplies under government support, are all factors. But in these markets also a principal cause of the rise is the high consumption and strong demand that comes from the high employment and purchasing power of the urban population.

The chief support of the boom is consumer spending on automobiles and on housing and everything that goes with it. However, business spending also is above expectations. Late last year the McGraw-Hill organization made a survey which indicated that expenditures on plant and equipment in 1950 would be 13 per cent below 1949, but a sample check during the past month suggests that the total will exceed earlier intentions, and that the drop will be less than 7 per cent.

The Inflation Talk

This forward movement is stimulating talk of a renewed spiral of rising prices and wages and expanding credit. The inflationary influences are plain. Personal borrowing for the purchase of houses, automobiles and other durable goods continues to increase. The Federal Government is borrowing to cover its deficit and will borrow more heavily as time goes on. Business borrowing from banks has declined so far this year, but

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within a few weeks seasonal influences will favor an upturn, which will coincide with the increased federal borrowing. These trends point to a rise in the money supply in the late summer and autumn. If business sentiment is good, and people are in a mood to spend and keep the money turning over, the impact of demand on supply, which has caused the price advances already noted, will be intensified instead of weakening. The Government adds to the demand for metals and rubber by its stockpiling purchases, and supports farm prices by loans and purchases, and also by holding its own stocks at prices set by law 5 per cent above the current support level plus carrying charges. Meanwhile the trend of wage rates, directly or indirectly, is upward. All these are inflationary elements.

These dangers are matters of common observation and general comment. The fact that they are clearly seen may itself induce a psychological attitude under which inflation will flourish. On the other hand, there is a body of opinion which denies that easy money and the government deficit can keep business rolling indefinitely at its current rate, or at least that these inflationary influences can push prices up very far or very long. This opinion points to the capacity of the country to turn out goods, and particularly to the $70 billion which have been spent since the war either in additions to industrial capacity or in increasing the productivity of existing capacity. It is self-evident that the industrial organization can supply a greater demand than ever before in history, and there are many lines even today where sellers feel the pressure of competition, and the necessity to keep prices down, more strongly than they feel the inflation of demand.

Those who stress this side of the outlook also see soft spots in business as compared with the inflationary conditions of 1948, when the price peaks were made and when almost all lines were expanding together. They point to the decline in exports, to reduced (even though still large) capital expenditures, to lessened farm purchasing power and to greater urban unemployment. They believe that increased man-hour output — the result of investment in machinery and equipment and of improved labor efficiency — has broken the back of the strong rise in industrial costs. They analyze the present tightness in the markets as a consequence of abnormal automobile and housing output, which they do not expect to continue indefinitely at present rates for several reasons: one, that market needs will be satisfied; another, that either lenders or borrowers, and perhaps both, will call a halt to the expansion of credit which is financing the demand.

It is also pertinent to inquire whether, if higher prices appear either in housing or in finished goods generally, consumers will pay them. At least twice since the end of the war rising markets have run into strong buyers' resistance, because some people were unable and others unwilling to pay the advances. The United States is immensely rich, and many things which are luxuries elsewhere are necessities here. But where the standard of living is so far above a subsistence level, demands are readily postponed. Rising prices influence postponement, especially when there is any doubt as to the permanence of the rise. Herein is a buffer against inflationary forces which many business men will readily recognize.

The Division of Sentiment

Confronted by such varying elements in the outlook, business sentiment is divided and uncertainty widespread. One view is that the inflationary forces will dominate for the short run, producing a boom and bust. Another is that the real inflation danger is over the long run, and that a reaction in business and prices is to be expected before the influences inherent in the fiscal, political and social policies of the Government really take hold in further depreciation of the purchasing power of our money. Still a third view is that the respective forces are fairly well balanced, and that only moderate fluctuations, with production and employment well sustained and prices reasonably stable, are in prospect for some time to come.

In this state of uncertainty the good rule may be to hope for the best and count on something less. Any survey would show that the shortages accumulated during the war are well satisfied in most lines, and that production of the things now most in demand, mainly automobiles and housing, is at a rate far above anything previously known. At levels reached during April and May, the country would turn out in a year something like 9 million cars and 1½ million urban dwelling units. The needs and wants are great, but few believe such rates will be sustained indefinitely, and few doubt that an extended period of such business, accompanied as it must be by expanded personal borrowing and by inventory accumulation, will be followed by an eventual drop to a lower, even if still an active, level. Of course people's wants are infinite, and when automobile and housing demands recede there will be other needs to be satisfied. But when major markets become saturated the labor and materials they have been using are not turned, as a rule, to production of other things without friction.

From this point of view the fact that the pressures which give the current business news its inflationary tinge, as in the steel shortages and the rise in non-ferrous metals prices, come in such great degree from automobiles and housing and the things that go with them, is a reason for caution. It is something to set against the great influence of the federal deficit and the inflationary powers of general government policy.

In any case, the situation now is one that will be benefitted by restraint, both in private and public policies. The moderate character of the 1949 recession is proof of the value of conservatism in 1948, when the boom was tempered by the widespread opinion that reaction was just around the corner. Business men weathered the storm comfortably by keeping strong while times were good, and the lesson, which has been learned in a school of experience going back to 1920, is not likely to be forgotten this time.

A $12,000 Investment Per Job

In the discussions of the growth and size of American industrial corporations prominence is always given to total assets or "resources" which is used as a measure of "power". Manufacturing companies with a million dollars or more in total resources have become commonplace and there are a dozen today that pass the billion dollar mark. While big figures of total assets correctly, though inexactly, reflect large scales of operation, it is frequently overlooked that they also reflect the heavy investment that is required, under today's advanced techniques, to put tools, machinery, and materials at the disposal of the workman and to maintain a flow of production and a flow of payments to suppliers, to the workman, to the tax collector, etc. The "power" of an industrial corporation is power supplied to the workman, to turn out the goods and in the process to produce his own wages, the cost of supplies and equipment, and the taxes levied by government.

The continued heavy cash outlays last year for plant modernization and expansion brought to new peaks both total invested capital and average investment per employe in manufacturing enterprise. An analysis of the annual reports of the country's 100 largest manufacturing corporations, which collectively employ over 4,000,000 men and women, shows that their combined total asset exceeded $49 billion at the end of 1949. These 100 companies, and the assets of each, are listed in the accompanying table.

Total Assets, 100 Largest Manufacturing Corporations Reported at End of 1949 (In Millions)

Allied Chem. & Dye Corp.	$ 354*	Philip Morris & Co.	$ 189
Allis-Chalmers Mfg. Co.	248	Nash-Kelvinator Corp.	157
Aluminum Co. of Amer.	526	Natl. Biscuit Co.	173
Amer. Can Co.	293	Natl. Dairy Prod. Corp.	324
Amer. Car & Fdy. Co. (a)	190	Natl. Distil. Prod. Corp.	236
Amer. Cyanamid Co.	224	Natl. Lead Co.	169
Amer. Radiator & S. S. Co.	169	Natl. Steel Corp.	360
Amer. Smelt. & Ref. Co.	286	Ohio Oil Co.	214
Amer. Tobacco Co.	705	Owens-Illinois Glass Co.	165
Amer. Viscose Corp.	222	Phelps Dodge Corp.	272
Anaconda Cop. Min. Co.	655	Phillips Petroleum Co.	607
Armco Steel Corp.	315	Pittsbh. Plate Glass Co.	252
Armour & Co.	418	Procter & Gamble Co.	294
Atlantic Refining Co.	406	Pullman, Inc.	171
Bethlehem Steel Corp.	1,155	Pure Oil Co.	289
Borden Co.	252	Radio Corp. of Amer.	244
Borg-Warner Corp.	168	Republic Steel Corp.	496
Burlington Mills Corp.	186	R. J. Reynolds Tob. Co.	529
Caterpillar Tractor Co.	158	Reynolds Metals Co.	177
Celanese Corp. of Amer.	255	Richfield Oil Corp.	182
Chrysler Corp.	637	St. Regis Paper Co.	148
Cities Service Co.	946	Schenley Industries, Inc.	356
Coca-Cola Co.	210	Shell Oil Co.	644
Continental Can Co.	250	Sinclair Oil Corp.	724
Continental Oil Co.	271	Singer Mfg. Co. (c)	209
Corn Prod. Refin. Co.	147	Skelly Oil Co.	183
Crown-Zellerbach Cp. (a)	167	Socony-Vacuum Oil Co.	1,472
Deere & Co.	299	Stand. Oil Co. of Calif.	1,158
Distill. Corp - Seagrams	357	Stand. Oil Co. (Ind.)	1,551
Dow Chemical Co. (b)	294	Stand. Oil Co. (N. J.)	3,816
E. I. duPont de N. & Co.	1,305*	Stand. Oil Co. of Ohio	234
Eastman Kodak Co.	380	J. P. Stevens & Co.	167
Firestone Tire & Rub. Co.	318	Sun Oil Co.	296
Ford Motor Co. (c)	1,149	Swift & Co.	501
Gen. Amer. Trans. Corp.	151	Texas Company	1,368
Gen. Electric Co.	1,171	Tide Water Assoc. Oil Co.	295
Gen. Foods Corp.	238	Union Carbide & Car. Co.	744
Gen. Motors Corp.	2,824	Union Oil Co. of Calif.	348
B. F. Goodrich Co.	276	United Aircraft Corp.	150
Goodyear Tire & Rub. Co.	424	United Fruit Co.	309*
Gulf Oil Corp.	1,216	U. S. Gypsum Co.	157
Hearst Consol. Publica.	157	U. S. Rubber Co.	326
Inland Steel Co.	301	U. S. Steel Corp.	2,556
Interl. Bus. Mach. Corp.	267	Walker, Gooder. & Worts	163
Interl. Harvester Co.	700	Western Elecrtic Co.	644*
Interl. Paper Co.	346	Westinghouse Elec. Cp.	700
Jones & Laughlin Stl. Cp.	381	Weyerhaeuser Tim. Co.	248
Kennecott Copper Corp.	560	Wheeling Steel Corp.	173
Liggett & Myers Tob. Co.	417	Wilson & Co.	141
Monsanto Chemical Co.	205	YoungstownSh.&TubeCo.	327

(a) 4/30/49. (b) 5/31/49. (c) 12/31/48. * After deducting reserve for depreciation.

For these 100 corporations as a group, total assets represented an average investment of $12,200 for every worker. Of this, $5,400 was in the form of plant and equipment, valued in most cases at original costs less accrued depreciation, a figure which grossly understates present-day value in view of the sharp rise that has taken place in replacement costs. The remaining $6,800 was largely in current assets used in carrying on the business – inventories of raw materials, work in process, and finished goods; accounts and notes receivable from customers; cash in hand and in the banks; and holdings of U. S. Government and other marketable securities.

In particular branches of manufacturing, the investment per employe varied widely from the $12,200 overall average, ranging from $5,600 per employe, in four tire and rubber companies, all the way up to $41,200 per employe in four tobacco companies, where inventories of tobacco in the course of being cured tie up large amounts of money in addition to needed investments in automatic machinery. In modern plants, many of the people engaged in "manufacture" (derived from the Latin "to make by hand") merely turn valves, watch gauges, or keep records. The range among representative major industry groups is as follows:

Average Total Assets per Employe of the 100 Largest Manufacturing Corporations in 1949

No. of Cos.	Industrial Groups	Average Investment
4	Tires, rubber products	$ 5,600
4	Autos and trucks	6,900
4	Electrical equipment	7,100
9	Food products	8,700
9	Iron and steel	10,700
14	Machinery and equipment	10,800
3	Pulp and paper	13,000
7	Nonferrous metals	15,300
6	Chemical products	15,400
4	Distilling	28,800
20	Petroleum products	32,200
4	Tobacco products	41,200
12	Other manufacturing	11,800
100	Total 100 companies	$12,200

This investment averaging $12,200 per employe was provided to the extent of $8,500 or 70 per cent by the shareholders, who number slightly over 5,000,000, with the remainder represented by debt — long-term bonds and notes, and current liabilities for bank loans, accounts payable, tax reserves, accrued liabilities, etc.

The total for shareholders, exceeding by 1,000,000 the number of employes, contains duplication to an unknown degree, arising from the fact that many individual investors may hold shares in more than one of the 100 largest companies. An offsetting factor is that numerous registered shareholders are trustees or "nominees" holding stock for large numbers of individual owners, and other registered shareholders are insurance companies, pension funds, investment trusts, etc., in which millions of individuals have some beneficial interest.

It was the total of assets provided through these 100 corporations from equity capital (comprised of original investment, sales of additional stock, and reinvested earnings) plus the borrowed money, that supplied the wherewithal to make the 4,000,000 jobs possible. Payroll statistics, given in the annual reports of 71 corporations which accounted for 85 per cent of the total employment of the group, indicate an average compensation of $3,500 per employe last year. If the employe were expected to provide his or her own capital, a corporation might advertise as follows:

> Help Wanted, Male and Female: Steady positions with large and old-established manufacturing company. Wages $3,500 per year for 40-hour week. Paid vacation, sick leave, hospital insurance, group insurance, retirement pensions. Bring $12,000 capital required for tools, supplies, etc.
>
> X.Y.Z. Products Corp.

Of course when an employe is also a shareholder in his company he actually does provide part of the capital required for his job. In that case, he naturally expects to receive payments not only for his labor but also for the "tools" he helps provide.

Distribution of Income

Sales and income data available for 97 of the 100 largest corporations show that these organizations not only produced enormous quantities of goods last year but also produced enormous payments to others, including — in order of size — goods and services purchased, employes' wages and salaries, taxes, reinvestment in the business, and dividends to shareholders.

Disposition of Income of the 97 Largest Manufacturing Corporations in 1949*
(In Millions of Dollars)

	Total Amount	¢ per $ of Receipts
Total receipts from sales and other operations	$57,639	100.0
Costs:		
Costs of goods and services purchased from others, etc.†	33,983	59.0
Wages and salaries paid†	13,320	23.1
Reserves for depreciation and depletion	2,072	3.6
Federal income taxes	2,443	4.2
Other taxes	1,247	2.2
Total costs of operations	53,065	92.1
Net income	4,574	7.9
Pfd. and common dividends paid	2,231	3.9
Reinvested in the business	$ 2,343	4.0

*Based on the 100 largest corporations, less Ford Motor Co., Singer Mfg. Co., and United Fruit Co., which do not publish complete sales and income accounts. †Partly estimated, on basis of payrolls reported by 71 companies representing over 85 per cent of the total employment of the group.

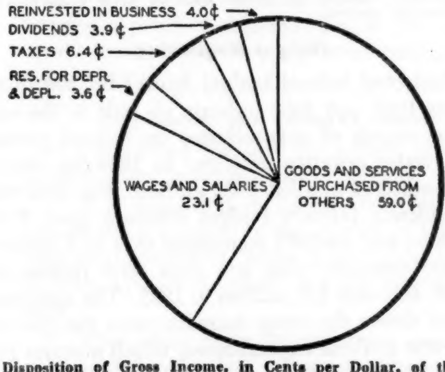
From the composite income account of these companies it will be seen that total receipts from sales and other operations last year amounted to some $57.6 billion. Of this aggregate, $34 billion, or 59 cents per dollar of receipts, was distributed for goods and services purchased from others; $13.3 billion, or 23.1 cents, was paid in wages and salaries to the companies' own employes; $3.7 billion, or 6.4 cents, was paid or accrued for direct federal, state, local, and foreign taxes.

Tax Work

The tax bill, averaging $37,000,000 per company, does not include large amounts of excise and sales taxes collected from customers and remitted to the various governments. On products subject to high and overlapping taxes, the levies which the customer pays as part of the cost, but which do not even enter into the producer's income account, are several times as high as all the direct taxes chargeable to operations. Four of the large distillers paid direct taxes last year of $113 million, but also collected excise taxes of $1,086 million. Four tobacco manufacturers paid direct taxes of $91 million, and collected excises of $1,166 million. Twenty petroleum refiners paid direct taxes of $744 million, and collected excises of $1,792 million.

Neither do the above payments of taxes include the employes' social security taxes or income taxes, levied on wages and salaries but collected and paid over to the Government by the com-

pany, not to mention the clerical burden of making out the multitudinous tax returns, both in connection with the taxes for which it is directly liable, and those for which it acts as a collecting agent without compensation. Recently the National Industrial Conference Board made a survey on the expense of filing tax returns by 125 companies, which showed that the number of returns ranged from 12 to 5,000 (exclusive of information returns on employes) and that the estimated expense in the case of some companies ran to as much as 5 per cent of sales.



Disposition of Gross Income, in Cents per Dollar, of the 97 Largest Manufacturing Corporations in 1949

The smallest item of cost shown on the table and chart, the allowance for depreciation and depletion, amounts to $2.1 billion or 3.6 cents per sales dollar. Such charges against income provide for the ageing and wearing out of plants and equipment, and in partial degree for the using up of mineral and oil resources.

Net income remaining after all expenses amounted to over $4.5 billion, or 7.9 cents per sales dollar. Dividends were paid to preferred and common shareholders in the amount of $2.2 billion, or 3.9 cents per dollar, while $2.3 billion, or 4 cents per dollar, was reinvested in the business to provide the funds for the continuing capital expenditures and to build up working capital.

Big Companies and "Concentration"

The vast size to which the largest corporations have grown, and the substantial shares in the total for industry as a whole that they account for as mass producers of goods, jobs, taxes, dividends and new capital, have often been cited as proof that manufacturing industry is being increasingly "concentrated" into fewer and fewer hands. Alarm is expressed at the fact that whereas we had in 1901 only one billion-dollar corporation — the newly formed U. S. Steel Corp. — today we have a dozen in manufacturing alone.

It is true that the big companies — or at least most of them — are growing bigger, but so is business as a whole. Part of the great expansion in dollar assets during the past fifty years represents a real increase in physical capacity, though part reflects merely a depreciation in the buying power of the dollar that requires more capital than heretofore to carry on the same business. Although these increased capital needs have been a problem not only to the larger and older companies, but also to the new enterprises starting in business, they have not prevented the entrance of a large number of new competitors in the manufacturing industries. In a comprehensive study entitled "Capital Requirements of New Manufacturing Firms" in the April issue of the Survey of Current Business, published by the Department of Commerce, it is stated that the establishment of 166,000 new manufacturing concerns in the three years 1946 through 1948 required an estimated initial capital investment of approximately $2 billion. Despite the substantial liquidation of a large number during the war period, the total number of manufacturing concerns operating on September 30, 1949, the latest date reported, was 286,400, or considerably more than the 1939 figure of 223,000.

It is interesting to note that of the 100 largest manufacturing corporations at the end of 1919 — thirty years ago — only 53 are in the group today. The other 47 names in the 1919 list were displaced by companies in the newer or faster-growing industries such as aluminum, chemicals, petroleum, electrical equipment, aircraft, rayon, and distilling.

Such changes illustrate the ceaseless competition that all businesses — even the "big fellows" — are up against in maintaining positions of leadership.

Electricity—Public or Private?

With President Truman's statements at Grand Coulee, Washington and elsewhere on his western trip last month, condemning opposition by private electric power companies to further public power expansion, and reiterating the Government's intention to press forward in this field, the controversy over the question of private versus public power promises to reach new heights of intensity.

In his speech dedicating the Grand Coulee dam, the President blasted the "private power lobby" and "other selfish interests" for opposing river basin developments, such as the Columbia, Missouri, and Tennessee, declaring —

> We will meet opposition from the private power groups. Many of them — there are, of course, honorable exceptions — do not want the energy of our rivers put to use as power and sold to the people at cost . . . . .

I am sure we will continue to overcome this opposition just as we already have done in building Grand Coulee — just as the people already have in Nebraska, in large parts of Washington and Oregon, and in other sections of the country, where they have decided to distribute power through the public bodies and cooperatives.

The benefits of public investment must be passed on to the people whose tax money is being used. Those benefits must not be diverted for private profit. We will continue to fight and win for that principle.

Thus did the President fling down anew the gauntlet in what has been an increasingly bitter fight on both sides. On one hand, protagonists of public power hurl denunciations of "private power lobbies" and "selfish interests". On the other, protagonists of private power denounce the "public power lobbies" and cry "socialism". In this welter of charges and counter charges, the public is either carried away by emotional appeals and catch phrases, or left baffled and confused.

It may be well to stand off a little at this point from the clash of partisan forces, and attempt a calm appraisal of some of the main facts and issues involved. Only in this way can the public properly evaluate these vast federal programs, undertaken and planned, and try to form some considered judgment with respect to two main questions:

1. Can we as a nation afford federal government expenditures of such magnitude for these purposes on top of a federal budget already swollen to huge proportions and running a deficit?

2. Should we as a nation pursue policies that put the Federal Government in direct competition with privately-owned business in one of the major sectors of the economy?

Growth of Public Power

Construction of water resource and power projects by the Federal Government on a large scale has taken place almost entirely since World War I, although the original phase of large scale construction on the Muscle Shoals project, now part of the Tennessee Valley Authority, was begun during World War I and completed in 1925.

Other projects followed, including Boulder Canyon authorized in December 1928 and commenced in 1930.

With the change of Administration in 1933 expansion of federal power projects really got under way, leading off with the creation of TVA in that year. Construction on Grand Coulee Dam, was begun in 1934, as a WPA depression project. In the seventeen years 1933 through 1949 the installed generating capacity of public power agencies increased more than five-fold, rising from 2,354,000 Kw., or 6.8 per cent of the combined total of public and private capacity at the end of 1932, to 12,546,000 Kw., or 20 per cent, at the end of 1949.

The accompanying table depicts this growth by various categories.

Generating Capacity, by Ownership

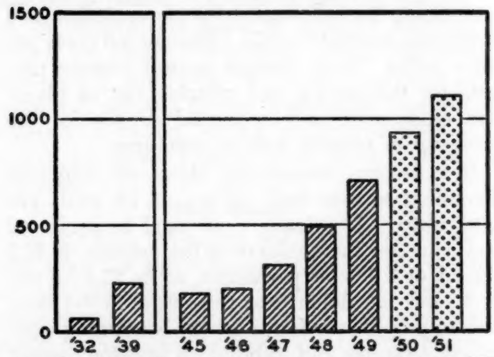
(Thousands of Kilowatts)

		Public			
Dec. 31	Private	Federal	Municipal	Other*	Total
1932	32,033	232	1,828	294	2,354
1941	36,041	2,371	3,158	834	6,363
1945	40,307	5,081	3,586	1,136	9,803
1948	45,313	5,526	4,078	1,546	11,150
1949	50,120	6,210	4,671	1,666	12,546

*Includes cooperatives, power districts, state projects, and non-central stations.

Only a Beginning

Projected federal budget figures for the fiscal years 1950 and 1951 indicate no halt in the upward march of expenditures on federal power and water resource projects. In 1949 the actual expenditures totalled $702 million. For 1950 the President's January budget estimate gave $914 million, and for 1951 something over $1.1 billion. These compare with less than $500 million in 1948, and only $56 million in 1932. The next diagram shows the steep increase since the end of the war in these expenditures, which account for a substantial portion of the budget deficits now inpending for this year and next.



U. S. Government Expenditures, Water Resources Projects; 1950 and 1951 from Budget Estimates. Millions of Dollars.

And evidently this is only a beginning.

According to the Hoover Commission Task Force Report on Water Resources Projects, present federal programs contemplate expanding the federally-owned and operated generating capacity to 45,968,900 Kw., or to more than the entire private generating capacity at the end of 1948. The Report goes on to say:

Altogether these authorized and projected construction programs envision an eventual 671 major power, flood control, and irrigation projects within the continental United States. It is estimated that this ultimate program for multiple purpose projects will cost in the neighborhood of 40 billion dollars.

From all this, and from statements by the President and other government officials, it is clear that the present Administration, like its predecessor, has embarked upon a program of public power development which is something quite different from the historical flood control, navigation, and reclamation projects which, until 1932, had accounted for only a small portion of the electric generating capacity of the nation, and which have always been recognized as a proper sphere for government action. Federal generation and sale of electricity, instead of being merely a by-product of these other activities, has become a primary consideration in the Government's location and design of many multiple purpose projects.

Arguments for Federal Power

In considering the case for federal power expansion, four principal claims appear:

1. That expansion of the private utility industry has been unequal to the growth of the country's need for power, hence that a great increase in federal power is needed to avoid power "shortages".

2. That river basin development, combining such varied objectives as power, flood control, navigation, and irrigation, is of such character and magnitude that only government can undertake it.

3. That government power is "cheaper" than private power.

4. That our great natural water resources ought not to be "exploited for private profit".

Power Needs and Private Capital

As for Point 1, this is a question that probably no amount of debate could settle satisfactorily to both sides. It is true that since the war instances of enforced power curtailments and "brownouts" cropping up in various localities have appeared to support claims that the private companies are unequal to the task of supplying power needs, and that government must step in and relieve the "shortage". The explanation of this goes back to the war when, in the face of tremendous increase in power demand, construction programs of utility companies were sharply curtailed by overriding priorities granted for war production. Only those generating units and other facilities absolutely necessary for the war effort were permitted to be built.

The result of this enforced curtailment of construction was a pent-up demand for power facilities at the end of the war which grew to huge proportions with the postwar boom in general business and vast increases in the use of all kinds of electrical appliances and equipment. Hampered thus by wartime priorities and unable after the war to get prompt delivery of needed equipment to provide for the greatly expanded demands for service, the utility companies could hardly avoid having to restrict power usage from time to time in some areas, particularly where unusual water shortages curtailed hydro output. All things considered, the record of the industry in maintaining service through power-pooling arrangements and running existing equipment to full capacity has been impressive.

Meantime, despite all handicaps, the private utility companies have been making rapid strides in catching up for ground lost during the war. In the four years ending December 31, 1949, some 9,800,000 Kw. net of additional generating capacity was put into service, and construction is continuing at a rapid rate. The margin of reserve capacity was about 14.2 per cent at the end of 1949 and is expected to be 15.6 per cent by the end of this year. At the present time the power "shortage" has been met in all but a few sections of the country, notably the Pacific Northwest where threat of government competition has been a potent factor deterring private capital.

That the utility industry is prepared and eager to meet its responsibilities for supplying the country's needs is shown by projected expenditures of $8 billion to $9 billion for expansion in the seven years through 1956. The problem that is giving it most concern is that of public power and the expansion of government owned and operated projects in this field.

Projects "Not Suitable" for Private Capital?

As regards the claim that river basin development is of such character that only government can undertake it, utility interests concede that flood control, irrigation, or navigation projects are not productive of sufficient revenue to justify investment of private capital. The industry recognizes the propriety of the Government engaging in these fields, and the utilization of the power potentials incidental thereto.

What the private companies ask is (1) that federal water resources projects should be economically justifiable, with realistic appraisal of benefits and costs, and (2) that river basin development be not regarded as exclusively a government function, and that opportunity and encouragement be afforded private capital to come in wherever possible, such as for example at Hoover Dam where local utilities share with local public bodies in leasing and operating the power generating facilities on a long term basis.

Involved in this whole controversy is the difficult question of cost allocation as between

power and other aspects of these huge programs, the question of tax advantages, and the weighing of such intangibles as the benefits to the nation at large of building these great government projects in different parts of the country. It is easy to see that such developments have brought great benefits to the regions concerned. But much more difficult to gauge are the "benefits" to the taxpayers in the rest of the country whose tax money has paid for the facilities in these favored areas.

That there is urgent need for better advance planning of water resources projects is pretty clear. Cost estimates *after* Congressional authorizations have been obtained have exceeded by 2½ to 5 times the initial estimates. Rapping the Corps of Engineers for practices "bordering on profligacy", the House Committee on Appropriations declared in its report on the General Appropriation Bill last March that "the averred necessity for major modification of plans, designs, and specifications after construction is begun on projects is clearly indicative of the fact that construction of numerous projects has been initiated before adequate surveys, plans, and designs had been developed." Such practice, the committee said, "is not proper stewardship of a vital and very expensive public function."

An Example of Private Enterprise

Though private utility companies have built many big dams and power plants, the dedication last month of Pacific Gas and Electric Company's $62,000,000 Feather River project northeast of San Francisco was particularly interesting, coming as it did within a few days of the President's dedication of Grand Coulee. This project – part of a six year postwar development costing $750,000,000 and a product entirely of private enterprise – is said to be the biggest hydroelectric development begun and finished anywhere in the country since the end of the war. It consists of new power houses, two big concrete dams, and ten and a half miles of 25-foot tunnel carved through granite. Construction has required three years with a peak working force of 3,000 men. It is an impressive illustration of the ability and readiness of the private utility industry to undertake major hydroelectric projects. There are many similar developments under private enterprise.

Yet, despite such accomplishments by the private power companies, the Hoover Commission Task Force Report, cited above, points out regarding the federal public power program –

> If brought to completion, these hydroelectric projects, plus all presently installed hydroelectric capacity, will exhaust a considerable portion of the further hydroelectric possibilities of the nation. It should also be noted that generally the better hydroelectric sites in the United States have already been developed. Many of the projects now proposed to be built by the Federal Government are at remote locations, involving relatively long distances from the load centers and hence will require very substantial transmission investment.

The Report goes on to say:

> Private utility companies are virtually precluded from developing new sites in major portions of the nation because of federal competition. The Federal Power Commission has demonstrated a reluctance to issue licenses for private companies to build at sites in areas where federal agencies are contemplating construction, and private capital has demonstrated a reluctance to make heavy investments in areas where the Federal Government may establish a competitive project.

It was in protest against the kind of discrimination described above that Philip D. Reed, Chairman of the Board of General Electric Company, declared in an address at the Midwest Power Conference in Chicago last April –

> How many Americans know that right today, in our own country, the Interior Department of the Federal Government is trying hard to prevent the Federal Power Commission from licensing two private utility companies to develop certain hydroelectric projects in Virginia and California because the Interior Department wants to develop them itself with taxpayers' money? I am not suggesting – nor, I think, would anyone here suggest – that there are *no* power projects which the United States Government should undertake. But when a responsible private company is ready and willing to develop a project with private funds, I confess both to a surprise and shock that a department of the Government should object on the ground that *it* plans, some day, to develop the same property with public funds.

Controversy Over Federal Steam Generating Plants

The President's signing of the First Deficiency Appropriation Bill on May 24, 1949, marked a new phase of the public versus private power issue. Included in this bill was an initial appropriation of $2,500,000 for the TVA to begin construction at New Johnsonville, Tennessee, of a steam generating plant for production of electric energy. Total cost to complete this plant is about $54,000,000. This was the first time that Congress had appropriated funds for construction in peacetime of a steam generating station, output of which will be sold by a federal agency for ordinary commercial purposes. Two other steam plants had been constructed by the Government in the TVA area, but under national defense measures, during World Wars I and II. Several government agencies had tried on previous occasions to obtain funds from Congress for steam plant construction, but until 1949 had met with defeat.

TVA stated that it needed additional generating capacity to supply the increased demand for

power in its service area. It also contended that the additional capacity should be provided by construction of a steam generating plant to "firm up" existing hydro capacity — that is, to provide additional sources of power which would be available in times of low water conditions affecting hydro generation. While it is customary in the utility industry to "firm up" a hydro system with steam generating plants, the big question was: admitting the need for additional firm power, was it the Federal Government's proper function to build it or should it be supplied by alternative means?

At the Senate hearing on the matter in February 1949 it was pointed out by opponents of the proposed plant that additional firm capacity could be made available to TVA by a well-engineered program of power pooling with neighboring electric utility systems, ready and eager to work out such a program. Another alternative was the possible construction of the plant by a local electric system which would integrate the output with TVA. Neither of these alternatives was acceptable to TVA.

The important point in the controversy over the New Johnsonville plant is the establishment of the precedent that a government agency, having possible alternatives, had the desire and got the appropriation to build a steam plant in peacetime to supply power for general distribution. If this is to be the accepted principle, why not a government steam plant in every other area where federal hydro developments require firming up?

Government agencies, by their subsequent actions, have already given the answer. Over the past four years the Southwestern Power Administration has requested funds from Congress to build a steam generating plant. Congress has denied these requests. Yet SPA now appears to have got what it wanted through a "lend-lease" deal with Rural Electrification Administration.

On January 31, 1950, REA approved loans aggregating $30,900,000 to two REA "super-co-ops" for the purpose of building two steam generating plants and over 1,000 miles of transmission lines in Missouri and Oklahoma. SPA has contracted to buy the output of the generating plants and to lease and operate the transmission lines for a period of 40 years. Meanwhile, efforts of the private companies to negotiate contracts for the purchase of SPA hydro power have been unavailing. Though integration of the SPA hydro system with the private companies in the area would supply the firm power needed for distribution, government agencies have again showed their desire to expand into the power business in spite of possible alternatives.

The fact that the SPA-REA "lend-lease" deal by-passed Congress is significant. Other deals of this type are pending in Virginia, Kentucky, and Texas. The question is, what is the limit?

Effect of "Preferential Power Contracts"

Aside from cases of the Government trying directly to prevent licensing for construction of private generating plants, and aside from the building of federal steam generating plants, there are other means less obvious, but nonetheless effective, by which federal power agencies are increasing the scope of their competition with private companies. The basis is found in "preferential power contracts".

Under existing law available federal power is sold first to so-called "preferential customers", which include states, counties, municipalities, and non-profit cooperative organizations. Only after their requirements are taken care of may any surplus power be sold to private enterprise, including electric utility companies. Preference contracts are on a long-term basis — usually for 20-year periods. Because the requirements of preference customers, present and future, must be taken care of first, contracts with private enterprise are usually on a short-term basis — from year to year or even for shorter periods.

The damaging effect of this situation on a private utility company is three-fold: (1) the existence of a large government power project in the area makes it increasingly difficult for the private company to raise capital for expansion; (2) faced with this difficulty, the private company becomes dependent on external sources of power or running older equipment at capacity which is very expensive and (3) available excess power for sale is largely in the hands of the government power agency which sells it only on a short-term basis.

On top of these three factors is the threat of public acquisition of a portion of the electric company's properties or construction of duplicate facilities by a public body to operate in direct competition. Such a public body, of course, is financed by sales of tax-free bonds and qualifies as a preference customer for government power. This is very attractive bait.

It is quite clear that the completion of new government power projects may bring about a further expansion of various public entities formed to qualify as preferential customers. Such expansion has been and will become increasingly in direct competition with investor-owner utility

companies, ready, willing, and eager to supply power needs of the area.

Is Public Power Cheaper?

We turn now to the third principal claim of public power advocates listed at the outset of this discussion – that public power is "cheaper" and is sold to the people "at cost". The impression is conveyed that the "power trust" stands between the power house and the consumer and takes a "toll", or makes a profit which can be avoided only if the power is supplied by a public agency.

It is important, first, to realize that federal agencies are primarily wholesalers of power. Certain large scale consumers such as aluminum plants are served directly but distribution to the consuming public generally is done by municipal or county systems or cooperatives which must add to the cost of the federal power, purchased at wholesale, their own operating costs and charges for debt service.

Public power rates, either at wholesale or at retail, are generally lower than rates which are charged by an investor-owned utility company. Electricity is generated by the same kind of machinery and distributed through the same kind of wire by private companies and public agencies. The principal advantages to the public power agency, in costs of doing business, lie in freedom from taxes and lower cost of capital.

Public power projects obtain funds by Congressional appropriation, loans from the U. S. Treasury, or sale of tax-free bonds. Investor-owned companies get their money from the savings of thousands of investors who must pay taxes on the income they receive on their investment. Public power projects, moreover, are entirely relieved of income taxes. The so-called "payments in lieu of taxes", often made by public power agencies, are supposed to compensate states, counties, or municipalities for taxes foregone as a result of use of the land by a public agency. Many of the larger local distribution systems pay tax equivalents around 5 per cent of annual revenues, but the average for the country, according to the Federal Power Commission, is approximately 2 per cent of annual revenues. In 1949 the Federal Power Commission reported payments of taxes by investor-owned utility companies in the aggregate amount of $786,789,000 – equivalent to 18 per cent of annual revenues. The tax differential in favor of public power systems is, therefore, about 16 per cent.

A good illustration of the effect of the tax differential on competitive electric rates is found in a booklet prepared by Georgia Power Company. The electric department of this company was charged with taxes in the amount of $7,977,017.47 in 1948, or 16.04 per cent of revenue from sales. In the fiscal year ended June 30, 1948, TVA distributors charged their electric operations with taxes and tax equivalents amounting to $2,703,844, or 4.49 per cent of sales revenue. This is equivalent to a differential of 12 per cent which, if applied to Georgia Power Company rates would reduce them to an average of 1.183c per kilowatt hour, as against TVA average rates of 1.200c per Kwh.

In numerous other localities comparisons would show the same result.

Although the tax differential alone can account for the apparent cheapness of public power, there are other factors of an intangible nature which increase the extent of the subsidies enjoyed by public power agencies. Among these are the sharing in numerous cases of a portion of operating costs with other public agencies or departments at the expense of taxpayers.

In short, the well-advertised cheapness of public power rates is a myth from a national standpoint. The taxpayer at large is called upon to shoulder the taxes that the public power agencies escape paying, as well as to provide cheap or free capital to them. While certain areas which are beneficiaries of federal power programs enjoy lower electric rates, they do so at the expense of taxpayers of the country as a whole. What one citizen saves on his electric rate, another citizen makes up in his tax.

"Exploitation for Private Profit"

Finally, there is the assertion that the energy of our rivers should not be "exploited for private profit". The President says "those benefits . . . must not be diverted for private profit".

This seems indeed strange doctrine to be preached to the American people, brought up as they are in the tradition of free enterprise and the right of every individual to strike out and make what money he can by putting his capital to work. This applies as much to whether he puts his money to work developing the great natural resources of our farms and mines as to whether he invests in transportation, manufacturing, or other forms of profit-seeking activity. Since when has the term "private profit" come to be invidious in this country? With statements in seeming disparagement of this essential characteristic of the free enterprise economy emanating from high places, it is not surprising that many people feel that, wittingly or unwittingly, our leaders are taking us down the road to socialism.

To be sure, the position of the private power companies as quasi-monopolies puts them in a different category from the average manufacturing or trading concern subject to keen competition on its doorstep. Here, however, the public interest is protected by the various public regulatory bodies, which prescribe rates to be charged, types and amounts of securities to be issued, and the classes of service to be rendered. Anyone who thinks these companies are in a position to "exploit" the people and build excessive profits knows little of the situation.

In all the controversy over electric rates there is a tendency to magnify the total cost of electricity in the consumer's budget. People forget that electricity costs less than prewar — one of the few things that does. In 1939 average annual residential usage was 897 Kwh. for which the consumer paid $35.88 or 4c per Kwh. In 1949 average annual residential usage was 1,655 Kwh. and the bill was $49.65 or 3c per Kwh. The fact is that the American people are getting their electricity at a great bargain.

Need for a Public Power Policy

That there is need for a federal power policy that will dispel existing confusion and coordinate activities of the electric utility industry and public power agencies in some sound and workable way is clear.

A first step toward such a policy would be a better public understanding generally of the circumstances under which "private" utility companies operate to the end that references to "power trusts", "special interests" etc., would cease to be made and the entire subject brought under dispassionate review. An excellent statement of the facts appeared in the 1948 Annual Report of the Southern California Edison Company from which we quote:

> Your Company, under public regulation, is required to provide uniform and nondiscriminatory public service to all who comply with public rules and regulations. Your Company is not as "private" in the sense of being free from public taxation, regulation and control as are similar properties which are financed directly from the public purse. About the only feature which is "private" about your business is that it is financed by the savings of private citizens and not from the public treasury. From that point on, the entire process of investing the funds, of generating, transmitting and distributing the electricity to the ultimate consumer, the rates and conditions of service, are prescribed by government agencies. Although maximum earnings of your Company are fixed by regulation, there is no guarantee of minimum earnings.

There probably are few people who believe that the Government should build *no* dam or develop *any* water resources. And whether or not one can accept in principle the Government's being in the power business, one must accept the importance in the power picture of the large output of projects built to date.

The answer to the problem would seem to lie in a unified development of the nation's power resources in which, in the words of the Hoover Task Force Report, "the Federal Government cooperates with its citizens in the development of hydroelectric power, irrigation, and water-supply projects instead of competing for markets". Aside from needed improvement in advance planning and fiscal accounting, and a clarification of the tax question, essential elements of such a program would include these limitations:

1. No discrimination by federal licensing authorities against a responsible private utility company, able and willing to develop a power site, in favor of some public agency to do the job.

2. No additional federal construction of steam generating plants or building of competing transmission lines.

3. No additional "preference contracts" for purchase of government power. Power purchased by private companies would be sold to cooperative and other public bodies under rate schedules subject to regulation by existing authority.

The effect of these limitations would be to check further expansion of federal activities in competition with private capital. The limitations would not hamper federal agencies in proper development of water resources, providing flood control and navigation aids or irrigation where needed. Opportunity to participate actively in development of power resources at these projects should be given to the privately-owned utility companies such as the arrangement at Hoover Dam.

There is every reason to believe that, with the proper coordination of effort, the power part of the water resources projects, both generation and transmission, can be done by private enterprise. Thus the net result will be not only reduced federal spending, but lessened federal competition with private capital and lessened risk of further drift towards state socialism.

THE objectives of every pension plan may be the same. But the methods used to arrive at these objectives may vary greatly from plan to plan.

For example, in one company the average age of those to be covered by the pension plan may be much higher than the average age of employees in another company. The average length of service in two companies can be as different as day is from night. These factors call for special treatment, particularly in selecting the method of funding past service costs.

The most effective pension plan takes into consideration the different conditions that must be met in each company. The plan is then built step by step to meet these individual conditions.

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